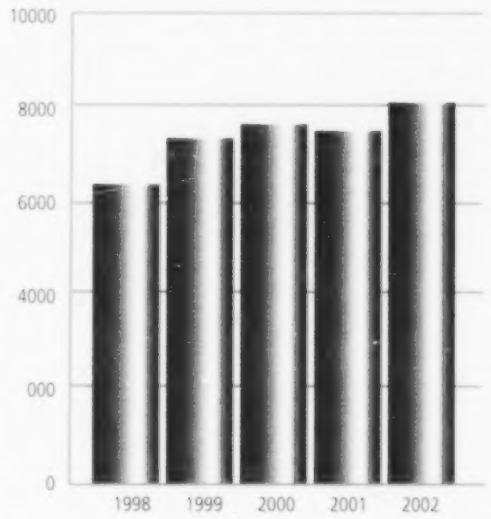
Highway 104 Western Alignment Corporation
Annual Report 2002/2003

Facts at a Glance

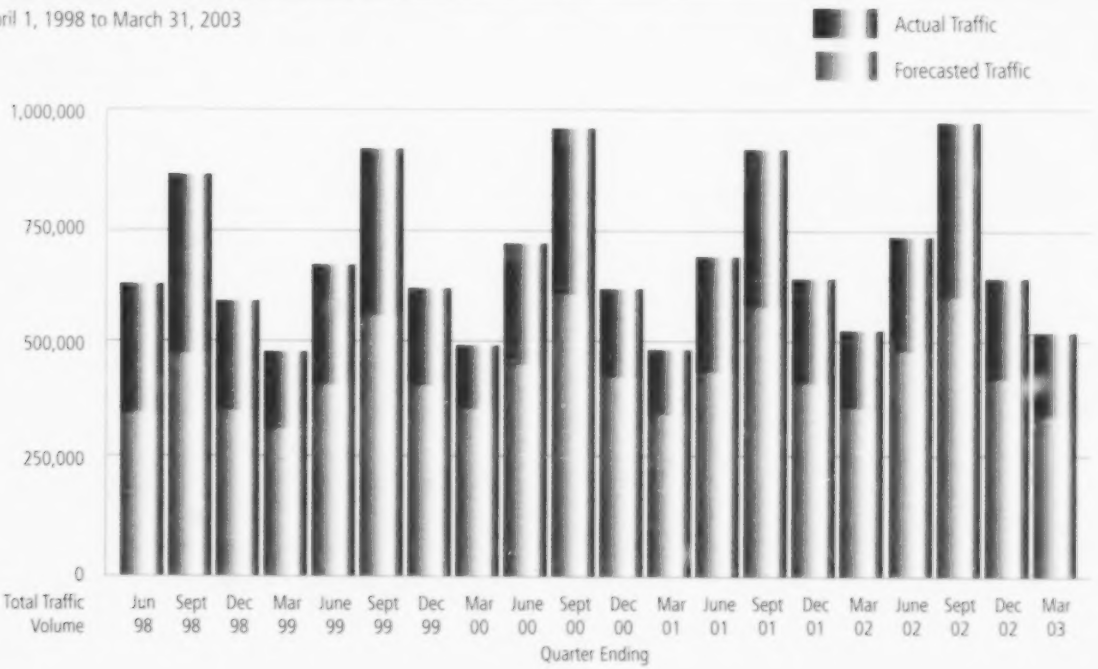
- 45 kilometres between Masstown and Thomson Station
- Twinned, four-lanes
- Wide median: 22.6 metres
- 110 km/hr
- Five full interchanges
- Six major bridges
- Five large tunnels under the road for access to land parcels, snowmobile trails and wildlife passages
- 18 kilometres of access roads
- Constructed by Atlantic Highways Corporation,a subsidiary of Canadian Highways International Corporation, in 20 months. (A national industry publication called Cobequid Pass the fastest highway ever to be designed and constructed in Canada.)
- The 104 Corporation contracts the management of the toll plaza to Atlantic Highways Management Corporation
- Opened November 15, 1997
- Average daily traffic: cars - 5959; commercial vehicles - 1798

Annual Average Daily Traffic



Forecasted Traffic versus Actual Traffic

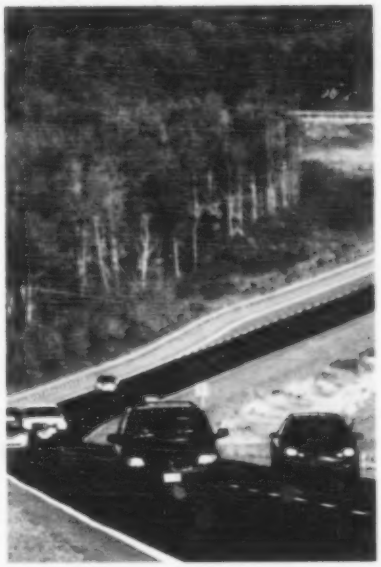
April 1, 1998 to March 31, 2003



Letters to Stake Holders

President's Letter

The Highway 104 Western Alignment Corporation is pleased to present our 2002/2003 annual report which represents the sixth operational year for the Cobequid Pass. As those who travel the highway recognize, the facility continues to be a first rate facility in appearance, condition and operation. The continued success results from the strength, dedication and support of our employees and business partners specifically the Department of Transportation and Public Works, Atlantic Highways Management Corporation, McCormack Rankin Ltd., McInnes Cooper, Grant Thornton LLP, and CIT Structured Finance.



The project continues to receive the benefits from the original financing structure which ensures the availability of funds, received directly from the toll revenues, for annual operating and major preventative maintenance for preservation of the highway condition over time. The Major Maintenance Reserve Fund this year provided funds to micro-surface 14 kilometers eastbound from Thomson Interchange to Westchester-Collingwood Interchange, as well as, construct a new well and replacement septic system serving the toll plaza property. Annual investments for major maintenance will guarantee the preservation of the highway condition over the 30 year life of the project that will satisfy users expectations.

This year the Auditor General for the Province of Nova Scotia had the opportunity to audit the Corporation's finances. The primary conclusion was the Corporation conducts its operations with due regard to economy and efficiency through its application of appropriate systems and practices to manage the financial aspects of its business. A series of recommendations were presented to strengthen accountability and business processes. One recommendation is reflected in this report with the reporting of collision statistics for the highway. The Corporation acknowledges the time and effort spent by the Auditor General officials in the conduct of this audit.

The Corporation continues to demonstrate responsible administration, attention to customer service and delivery of a quality driving experience. Our future efforts will focus on continued improvement in these areas.

Lee Rankin
President

General Manager's Letter

During the past year the Cobequid Pass continued its positive record for operational and financial success. Attention to customer service and highway condition improvements resulted in few public complaints and the public's increasing expression of appreciation for the highway and service. An expression of thanks to the current, and past, Highway 104 Corporation and Atlantic Highways Management Corporation staff members who are on the front line serving daily our customers with a friendly and knowledgeable attitude.

This year the highway experienced a 3.18% increase in traffic. More and more customers are becoming regular users taking advantage of the Electronic Toll Collection (ETC) system. The Corporation recorded a 4.87% increase in ETC traffic. The convenience of ETC and the fact that our customers can use their transponder for an account set-up at the Halifax-Dartmouth Bridge Commission promotes participation. Our efforts will continue to increase the interoperability and co-operation among the regional tolling authorities for the benefit of regional traffic flow. The tolling revenue for the year increased 3% from the previous year while the actual project tolling revenues exceed the original projections by 24%.

The Auditor General for the Province of Nova Scotia completed a financial audit of the Corporation which concluded the operations are conducted with due regard to economy and efficiency through appropriate systems and practices to manage financial responsibilities. Recommendations were presented to the Corporation to strengthen specific accountabilities and business processes. These recommendations are being addressed by the Corporation. We acknowledge the professional, objective and co-operative approach by the Auditor General staff in their attention to the audit.

The Corporation has demonstrated an interest to participate in road safety initiatives. This year we had the privilege to co-sponsor a high school speaking tour by Ms. Cara Johnston. Ms. Johnston is Canada's leading female speaker on road safety and student leadership.

The Corporation's success is driven by the leadership of our President, Mr. Lee Rankin and the Shareholder, the Province of Nova Scotia. Professional advice and counsel is received from our legal firm, McInnes Cooper, our auditor, Grant Thornton LLP and our independent engineering firm, McCormack Rankin.

Provided within this report are the audited financial statements illustrating our financial position and toll revenue expenditures. Due to the unique nature and complexity of the Corporation's financing, I recommend the notes to the financial statements be consulted in conjunction with the statements. An overview of the history of the Cobequid Pass is also provided for interest.

The Corporation will continue to provide professional and prudent administration, consistent with the governing statute and agreements, to ensure the Cobequid Pass highway condition and service meets the expectations of the owner and users.

In closing, an expression of thanks to Karen Brown for the annual report design and Dan Callis for the photography.

Ralph Hessian, P. Eng.
General Manager

Administration and Accountability

Background

Creating the Highway 104 Western Alignment Corporation was key to creating Cobequid Pass. Unique to infrastructure financing in Canada, the Corporation is neither a Crown corporation, nor an agent of the Crown. Its sole purpose, by statute, is to manage the finance, design, construction, operation and maintenance of Cobequid Pass.

The Corporation's mandate is to manage toll revenues until the year 2026, and maintain the schedule set to repay investors and fund annual and long term maintenance. The Corporation's sole source of revenue is tolls.

Because the funding for Cobequid Pass flows only through the 104 Corporation, the highway's debt does not belong to the province of Nova Scotia, nor does the province guarantee the debt. However, because public monies are involved in the highway's financing, and because the 104 Corporation is wholly owned by the Crown, its operations may be scrutinized annually by the Auditor General as they were this fiscal year.

Operating independent of government, the 104 Corporation is the entity that permitted non-recourse financing, meaning private investors can lay no claim on government assets or money in the unlikely event toll revenue should fail to provide a return on investment.

Friendly customer service at the toll plaza

Roadside traffic monitoring station

Administration

One of the Corporation's primary administrative responsibilities is ensuring toll revenue is collected and distributed according to the agreements signed by the government of Nova Scotia, Atlantic Highways Corporation and CIT Structured Finance formerly Newcourt Credit Group, the Bondholders' representative.

This responsibility includes maintaining budget control, issuing payment directives, and ensuring that parties to the agreements are meeting obligations in a timely fashion. It also means keeping communication lines open and direct between all parties.

The administration of the Highway 104 Western Alignment Corporation is led by its General Manager, Ralph Hessian and by the Controller, Athena Koros, CMA, who has managed reporting for the Corporation since the highway opened. Patricia Belleza provides administrative and accounting support.

Accountability

The financial activities of the Corporation are carefully scrutinized by its auditors Grant Thornton LLP and by CIT Structured Finance and the Department of Transportation.

Detailed reports of the highway's operation are given to the Deputy Minister of the Department of Transportation and Public Works on a monthly basis, and he in turn informs the Minister of Transportation and Public Works as the owner. The Minister is well equipped to respond to questions from the public, Cabinet, Members of the Legislative Assembly, and the media, as is the Corporation's General Manager.

The Highway 104 Western Alignment Corporation is represented on the Department of Transportation and Public Works' Steering Committee, and meetings are scheduled regularly with Atlantic Highways Management Corporation executives.

The Auditor General of Nova Scotia has the right to review the 104 Corporation's activities as it did this fiscal year.

104-04681/

Maintenance

With a budget of $650,000, adjusted annually for inflation, the Department of Transportation and Public Works provides maintenance on Cobequid Pass under the terms of the Annual Maintenance Agreement which is currently up for renewal. The majority of this work consists of snow and ice removal during the winter months. The Department of Transportation also performs annual line painting, guardrail replacement and repair, litter removal, and other duties to ensure the highway is maintained at a high standard.

The Corporation funded $500,000 in Major Maintenance during the past fiscal year. This work consisted of 14 kilometres of Microsurfacing, design and construction. This work is funded through the Corporation's Major Maintenance Reserve Fund and involves no public monies.

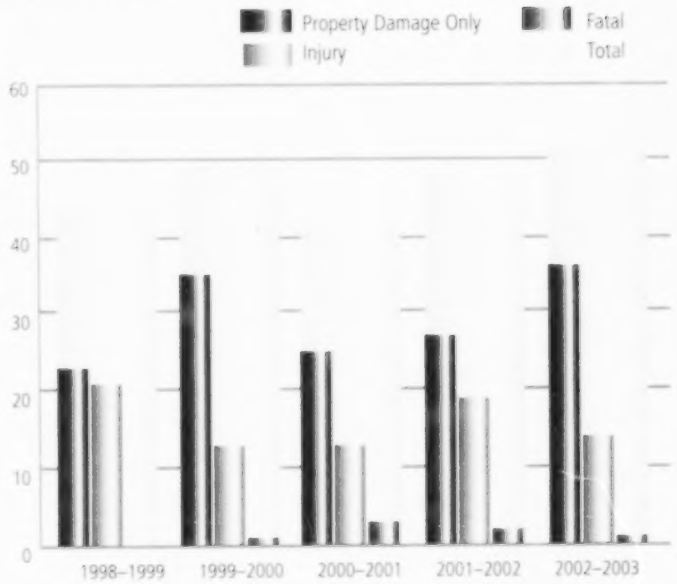
Atlantic Highways Management Corporation

The toll operations are run by Atlantic Highways Management Corporation (AHMC), a subsidiary of the contractor, Atlantic Highways Corporation (AHC). Both are owned by Aecon. AHC guaranteed the highway for three years, an unprecedented warranty period, and all deficiencies were repaired at their expense.

The electronic tolling system managed by AHMC links vehicles carrying a transponder to a computerized account and automatically deducts the toll. Developed by SIRIT Inc., the system provides for automatic toll collection and cash transactions with built-in audit capabilities. Twelve hundred and twelve transponder units were sold this fiscal year.

AHMC employs 37 people at the toll plaza, most from Cumberland-Colchester. Aecon is an alliance of the project management and engineering firms Ambro Construction Ltd. and BFC Construction Corporation.

Cobequid Pass Collision Record 1998–2003



5 Year Totals	Property	Injury	Fatal	Total
	146	80	7	233

Data supplied by the Nova Scotia Department of Transportation and Public Works

How Cobequid Pass and its Ongoing Maintenance ar

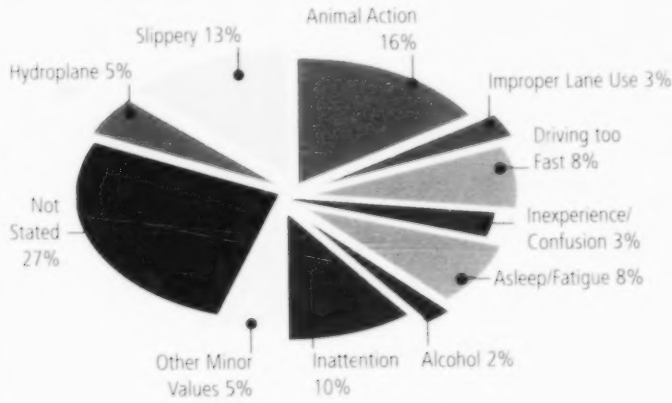
Cobequid Pass is the only highway in Nova Scotia that required a relatively small one-time initial investment from governments for its construction. It is also the only highway that covers the cost of its annual and long-term maintenance over a 30-year period.

The terms of the agreement between the partners detail how toll revenue is used to repay investors, cover toll operations, and fund long and short term maintenance.

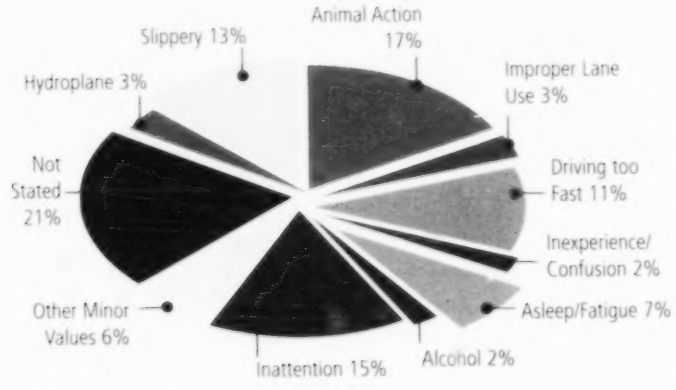
It's a complex agreement. Here's how it works:

Funding	Amount	Provided by
Senior Bond Issue	$51.0 million	CIT Structured Finance
Junior Bond Issue	$9.9 million	CIT Structured Finance
Subordinate Notes	$5.5 million	Province of Nova Scotia
Equity	$1	Province of Nova Scotia
Interest Earnings		From all investments and bank accounts
Federal Funding	$27.5 million	Government of Canada
Provincial Funding	$27.5 million	Government of Nova Scotia

Primary Contributing Collision Factors
1 Year Total 2002–2003



Primary Contributing Collision Factors
5 Year Total 1998–2003



Data supplied by the Nova Scotia Department of Transportation and Public Works

Operations

The Project Account was established to:

- Pay the Highway 104 Western Alignment Corporation's ongoing administrative costs
- Pay operating and maintenance costs for Cobequid Pass.

Every month the 104 Corporation transfers any cash balance from the Project Account into the Capital Reserve Account. By agreement, the Project Account keeps only a balance equal to two months of its operating/administrative budget.

The sources of cash for the Project Account are:

- Toll revenue
- Any cash not used during construction
- Interest income

The **Capital Reserve** account is used to:

- Pay Trustee fees
- Pay accrued unpaid interest
- Pay senior bond debt and junior bond debt as per scheduled quarterly repayment dates
- Meet the minimum funding requirements of the Debt Service Reserve Account if required. (The Debt Service Reserve Account must be funded at one full year of Senior Debt Payments, according to the amortization schedule, at any given time.)
- Meet the funding requirements of the Major Maintenance Reserve Fund
- Pre-pay the debt

The sources of cash for the Capital Reserve account are:

- The Project Account: All monies in excess of two months operating and administrative budget are deposited to the Capital Reserve Account
- All excess funds in the Debt Service Reserve Account (DSRA). The DSRA, on any given bond principal and interest payment date, can only equal the scheduled Senior Bond repayments for the upcoming 12 month period.

Senior Debt Service Coverage Ratio (DSCR)

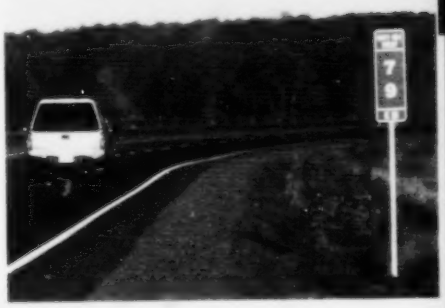
The Senior Debt Service Coverage Ratio must be 1.2:1 at any time during the first 36 months after December 31, 1997, the Date of Acceptance, and 1.3:1 at any time after the 36th month after the Date of Acceptance.

If the Senior Debt Service Ratio is larger than 1.3:1 but less than 1.6:1 then all funds in excess of expenditures and bond repayment are accumulated in the Capital Reserve Fund where they are placed in permitted investments. Since project start up the Senior Debt Service Ratio has never been less than 1.6:1.

Major Maintenance Reserve Fund (MMRF)

The Major Maintenance Reserve Fund ensures that there are funds available to pay for all major maintenance costs such as repaving.

The first contribution to the MMRF fund came from the Subordinate Notes issued in November 1997. This was a total amount of $500,000. The Financing Agreements require that specific quarterly contributions be made to the MMRF from the Capital Reserve Fund and these contributions are adjusted annually based on maintenance requirements.



Cash Flow Diagram

Junior Debt Service processes have been omitted for clarity

Auditor's Report

To the Shareholder of Highway 104
Western Alignment Corporation

We have audited the balance sheet of Highway 104 Western Alignment Corporation as at March 31, 2003, and the statements of earnings and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2003, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Grant Thornton LLP
Chartered Accountants
Halifax, Canada
June 19, 2003

Highway 104 Western Alignment Corporation

Statements of Earnings and Deficit

Year Ended March 31

	Budget 2003	Actual 2003	2002
Revenue			
Facility revenue	**$ 13,279,714**	**$ 13,864,445**	$ 13,515,205
Interest income	**390,000**	**409,148**	510,021
	13,669,714	**14,273,593**	14,025,226
Expenses			
Bondholder representative fees	**168,000**	**100,544**	191,407
Trustee fees	**28,450**	**39,387**	27,603
Salaries and benefits	**174,913**	**166,887**	174,158
Office	**56,560**	**53,211**	46,686
General and administrative	**288,451**	**122,676**	183,143
Enforcement	**60,000**	**60,000**	60,000
Independent engineer	**50,000**	**31,686**	29,956
Routine maintenance	**706,468**	**709,594**	689,084
Major maintenance	**609,400**	**485,452**	1,174,708
Facility operations	**1,723,426**	**1,674,587**	1,609,072
Transponders	**-**	**71,558**	36,714
	3,865,668	**3,515,582**	4,222,531
Earnings before other items	**9,804,046**	**10,758,011**	9,802,695
Other items			
Government assistance amortization (Note 2)	**1,147,444**	**1,147,444**	1,092,804
Amortization and depreciation	**(2,661,471)**	**(2,673,954)**	(2,576,310)
Interest on long term debt	**(8,376,608)**	**(8,376,608)**	(8,315,568)
Net earnings	**$ (86,589)**	**$ 854,893**	$ 3,621
Deficit, beginning of year		**$ (10,976,268)**	$ (8,671,313)
Net earnings		**854,893**	3,621
Transfer to reserve for restricted assets (Note 10)		**(3,452,394)**	(2,308,576)
Deficit, end of year		**$ (13,573,769)**	$ (10,976,268)

See accompanying notes to the financial statements.

Highway 104 Western Alignment Corporation

Balance Sheet

March 31

	2003	2002
Assets		
Cash and cash equivalents	**$ 498,108**	$ 482,740
Inventory	**7,630**	21,820
Prepaids (Note 3)	**329,283**	364,608
Receivables (Note 4)	**80,907**	201,950
Restricted assets (Note 5)	**16,221,280**	12,768,884
Facility (Note 6)	**112,509,031**	115,062,126
Deferred costs (Note 7)	**571,399**	682,754
	$130,217,638	$129,584,882
Liabilities		
Payables and accruals	**$ 664,495**	$ 484,965
Deferred revenue	**581,874**	525,181
Long term debt (Note 8)	**82,096,714**	81,407,630
Payable to the Province of Nova Scotia (Note 9)	**250,000**	250,000
Deferred government assistance (Note 2)	**49,916,124**	51,063,568
	133,509,207	133,731,344
Shareholder's Deficiency		
Capital stock, one no par value share issued and outstanding in favour of the Province of Nova Scotia	**1**	1
Reserve for restricted assets (Note 10)	**10,282,199**	6,829,805
Deficit	**(13,573,769)**	(10,976,268)
	(3,291,569)	(4,146,462)
	$130,217,638	$129,584,882

Commitments and contractual obligations (Note 13)

See accompanying notes to the financial statements.

Highway 104 Western Alignment Corporation

Statement of Cash Flows

Year Ended March 31

	2003	2002
Increase (decrease) in cash and cash equivalents		
Operating		
Net earnings	**$ 854,893**	$ 3,621
Government assistance amortization	**(1,147,444)**	(1,092,804)
Amortization of deferred financing fees	**35,434**	35,433
Amortization and depreciation	**2,673,954**	2,576,310
	2,416,837	1,522,560
Change in non-cash operating working capital (Note 12)	**406,781**	83,099
	2,823,618	1,605,659
Financing		
Increase in long term debt, net	**689,084**	627,993
Investing		
Increase in restricted assets	**(3,452,394)**	(2,227,329)
Construction of facility	**(44,940)**	(3,192)
	(3,497,334)	(2,230,521)
Net increase in cash and cash equivalents	**15,368**	3,131
Cash and cash equivalents, beginning of year	**482,740**	479,609
Cash and cash equivalents, end of year	**$ 498,108**	$ 482,740

See accompanying notes to the financial statements.

Highway 104 Western Alignment Corporation
Notes to the Financial Statements *March 31, 2003*

1. Nature of operations

The Corporation has been established for the purpose of financing, designing, constructing, operating and maintaining the Facility consisting mainly of a 45 km stretch of highway (referred to as the Highway 104 Western Alignment) between Masstown and Thomson Station in the Counties of Colchester and Cumberland, Nova Scotia.

2. Summary of significant accounting policies

Pre-operating and operating periods — The pre-operating period was the twenty month construction period commencing April 1, 1996 until the date of acceptance in November 1997. Operations began December 1, 1997.

Facility — The Facility consists of the highway referred to as the Highway 104 Western Alignment and the toll plaza constructed on the highway. The costs of the Facility include certified progress payments to the Facility's contractor, independent engineer fees, professional fees and interest costs incurred during the pre-operating period. These costs are being amortized commencing at the start of the operating period until March 31, 2026 using the sinking fund method with an annual compounding rate of 5%.

Also included in the Facility are computer equipment costs of $44,940. These costs are being amortized over three years under the straight line method.

Deferred costs - start up — Administrative expenses incurred during the pre-operating period have been deferred as start-up costs and are being amortized to operations, on a pro-rata basis, over a five year period commencing at the start of the operating period.

Deferred costs - financing fee — Financing, commitment and bondholder representative fees related to the establishment and placement of the senior and junior toll revenue bonds have been deferred and are being amortized to operations over the term of the related bond debt commencing at the start of the operating period.

Deferred government assistance — Government assistance provided by the Province of Nova Scotia has been recorded as a deferral and is being amortized to operations over thirty years commencing at the start of the operating period using the sinking fund method with an annual compounding rate of 5%.

Cash and cash equivalents — Cash and cash equivalents include cash on hand, balances with banks and short term deposits with original maturities of three months or less. Bank borrowings are considered to be financing activities.

Use of estimates — In preparing the Corporation's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the year. Actual results could differ from these estimates.

3. Prepaids

	2003	2002
Operating expenses	$ 44,040	$ 79,365
Advance to operator	285,243	285,243
	$ 329,283	$ 364,608

4. Receivables

	2003	2002
Harmonized Sales Tax	$ 52,827	$ 53,455
Other	28,080	148,495
	$ 80,907	$ 201,950

5. Restricted assets

	Cash	Investments	2003 Total	2002 Total
Senior debt service reserve account	$ 864	$ 5,787,040	$ 5,787,904	$ 5,640,312
Capital reserve account	775,493	6,626,385	7,401,878	4,693,140
Major maintenance reserve account	(174,354)	3,205,852	3,031,498	2,435,432
	$ 602,003	$15,619,277	$16,221,280	$12,768,884

Investments are recorded at cost, have a weighted average term of 14.79 (2002 - 6.19) months to maturity and a weighted average interest rate of 3.69% (2002 - 2.84%). The market value of the investments approximates the carrying value.

The following restricted accounts have been established in accordance to trust indenture agreements between the Corporation and the senior and junior bondholders and an Omnibus Agreement between the Corporation and the Province of Nova Scotia:

(i) The capital reserve account has been established to provide funds to pay the interest and principal on the senior and junior bonds and the subordinated notes. These funds are also available to pay the trustee and bondholders' representative fees to the extent they are not paid out of the project account. This account provides funding to the major maintenance reserve and the senior debt reserve accounts. The capital reserve account is funded from excess funds transferred from the project bank accounts of the Corporation.

(ii) The senior debt reserve account has been established to provide a reserve of funds to be available for payments as they come due for the senior toll revenue bonds. Funds can only be transferred from this fund when funds in the capital reserve account are insufficient to pay senior toll revenue bond payments. The account should maintain sufficient reserves equal to 12 months principal and interest payments due on the senior toll revenue bonds. The replenishment of the reserve comes from the capital reserve account.

(iii) The major maintenance reserve account has been established for the purpose of paying major maintenance repair and rehabilitation expenses. This reserve is funded from the capital reserve account in accordance with a maintenance budget recommended by the Independent Engineer through the terms of the major maintenance reserve fund agreement.

6. Facility

	Cost	Depreciation	2003 Total	2002 Total
Facility	$ 124,667,559	$12,158,528	$ 112,509,031	$ 115,062,126

7. Deferred costs

	2003	2002
Start up	$ -	$ 75,921
Financing fees	571,399	606,833
	$ 571,399	$ 682,754

8. Long term debt

	2003	2002
Senior toll revenue bonds bearing interest at 10.13%, maturing March 31, 2026, repayable in partial interest payments from June 30, 1998 until March 31, 2006 and then 80 equal blended quarterly payments of interest and principal of $2,251,191. Interest from the date of issue has been capitalized as part of the principal and continued to be fully capitalized until June 30, 1998. As security, the Corporation has provided an assignment of all the present and future property and assets, including rights to operate the Facility, a security interest in the Debt Service Reserve Account and the Major Maintenance Reserve Account.	$71,385,924	$69,890,604
Junior toll revenue bonds bearing interest at 10.76%, maturing March 31, 2011, repayable in interest payments only from June 30, 1998 until March 31, 2001 and then 40 equal blended quarterly payments of principal and interest of $503,395. Interest from the date of issue has been capitalized as part of the principal and continued to be capitalized until June 30, 1998. As security, the Corporation has assigned a second charge security interest in all security pledged to senior toll revenue bondholders.	10,710,790	11,517,026
	$82,096,714	$81,407,630

Minimum principal repayments required are as follows:

2004	$ 896,554
2005	996,970
2006	1,108,652
2007	2,498,137
2008	2,750,909

The combined fair value of the Corporation's long term debt, as comprised by senior and junior toll revenue bonds, is $100,579,000 (2002 - $97,159,000) and is determined using cash flows discounted at a rate equal to the prevailing market rate of interest for financial instruments having substantially the same terms and characteristics.

9. Payable to the Province of Nova Scotia

On the date of acceptance, the Province advanced $250,000 to the Corporation to facilitate the Provincial subsidy. Under the First Amendment to the Omnibus Agreement, the Province reduced the tolls for transponder users and created a Provincial subsidy payable to the Corporation to offset the reduction. The advance is to be repaid to the Province on the earlier of the date when the toll rates are reinstated to the original rates as laid out in the Omnibus Agreement or when the Corporation has fully extinguished its obligations under the Senior and Junior Bond Indentures.

10. Reserve for restricted assets

The capital reserve account is to be funded from excess funds in the Project Bank Account. In addition, any interest earned on restricted assets forms part of the reserve account.

	2003	2002
Reserve for restricted assets, beginning of year	$ 6,829,805	$ 4,521,229
Transfers from project account	10,920,000	10,780,000
Interest income	395,337	485,205
Long term debt payments, including interest	(7,652,141)	(7,652,141)
Major maintenance payments, including HST to be recovered	(210,802)	(1,304,488)
	3,452,394	2,308,576
Reserve for restricted assets, end of year	$10,282,199	$ 6,829,805

11. Financial instruments

The Corporation's financial instruments consist of prepaids, receivables, restricted assets, payables and accruals, amount payable to the Province of Nova Scotia, deferred revenue and long term debt. Unless otherwise noted, it is management's opinion that the Corporation is not exposed to significant interest, currency or credit risks arising from these financial instruments.

The Corporation estimates the fair value of its financial instruments to approximate their carrying values with the exception of long term debt as outlined in Note 8 to the financial statements.

12. Supplemental cash flow information

	2003	2002
Change in non-cash operating working capital		
Inventory	$ 14,190	$ 2,713
Prepaids	35,325	(48,090)
Receivables	121,043	(56,447)
Payables and accruals	179,530	156,760
Deferred revenue	56,693	28,163
	$ 406,781	$ 83,099
Cash and cash equivalents consist of:		
Cash on hand and balances with banks	$ 498,108	$ 482,740
Interest paid	$6,845,904	$ 6,927,124

13. Commitments and contractual obligations

The Corporation has entered into the following agreements to finance, design, construct, operate and maintain the Highway 104 Western Alignment.

Omnibus Agreement — Agreement dated April 1, 1996, between the Corporation, the Contractor, the Operator and the Province of Nova Scotia to design, finance, construct, operate and maintain the Highway 104 Western Alignment. This agreement acknowledges that the Corporation has entered into a Design Build Agreement and an Operating Agreement to fulfill its obligations to the Province.

Under this agreement, the Province of Nova Scotia retains ownership of the Facility, however, the Corporation is granted the right to operate and collect tolls for a thirty year period, at which time this right will revert back to the Province.

The Province contributed $55,000,000 to the project.

Operating Agreement — Agreement dated May 22, 1996 between the Corporation and Atlantic Highways Management Corporation (the Operator) whereby the Operator is required to operate the Facility which includes the toll collection system, toll plaza and the administration building.

Operator compensation is based on the annual operating budget plus a variable fee, subject to adjustment under certain conditions, equal to 10% of the total annual budget.

Major Maintenance Reserve Fund Agreement — Agreement between the Corporation, the Trustee and the Bondholders' Representative to provide for the major maintenance work required during the operating period of the Facility. The Agreement requires the Corporation, on an annual basis, to engage an independent engineer to report on all major maintenance work to be completed in the upcoming year, as well as a major maintenance budget to determine the required annual amount to be deposited in the Major Maintenance Reserve Account. The maximum annual fee is $50,000. The agreement with the independent engineer was renewed for a five year term in November 2002.

The estimated deposits required to fund anticipated major maintenance for the next five years are as follows:

2004	$ 700,000
2005	700,000
2006	700,000
2007	700,000
2008	700,000

Annual Roadway Maintenance Agreement

The five year agreement, renewed March 3, 2003, between the Corporation and the Department of Transportation and Public Works of the Province of Nova Scotia to provide annual roadway maintenance services for an annual fee of $830,600 and subsequently adjusted thereafter for inflation.

Facility Upgrade

At year end, the Corporation had entered into an agreement to upgrade the existing lane controllers for the facility. The Agreement will expire August 31, 2003 and has an estimated cost of $80,000.

Other

The Corporation had also entered into various operating lease agreements for equipment and office space. The minimum lease payments for the next three years are as follows:

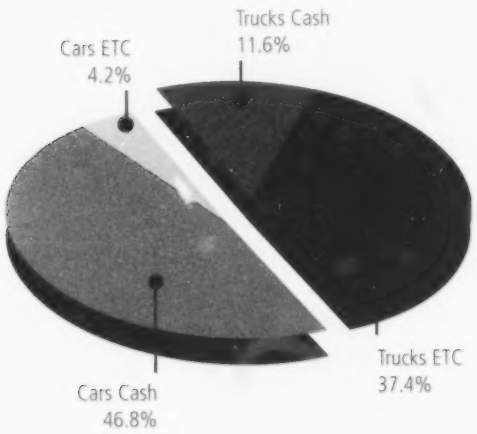
2004	$ 27,348
2005	27,348
2006	18,232

Financing

- Construction cost: $112 .9 million
- Provincial contribution: $27.5 million
- Federal contribution: $27.5 million
- $5.5 million in subordinated notes invested from the provincial pension fund
- $60.9 million provided by the sale of bonds to private investors underwritten by Newcourt Credit Group of Toronto
- Toll revenues over 30 years will provide the investors a return; pay for toll operations; cover the $650,000 for annual maintenance provided by the Nova Scotia Department of Transportation and Public Works; and contribute to long-term maintenance.
- The money borrowed from the private sector by the Highway 104 Western Alignment Corporation through Newcourt Credit Group is borrowed on the security of tolls not on the financial guarantees of the province.
- $3.50 per car; $2.50 per axle for trucks over five tonnes, $4.50 per recreational vehicle.
- $41 to buy a transponder, an electronic device mounted on a vehicle to automatically deduct tolls from a pre-paid computerized account.

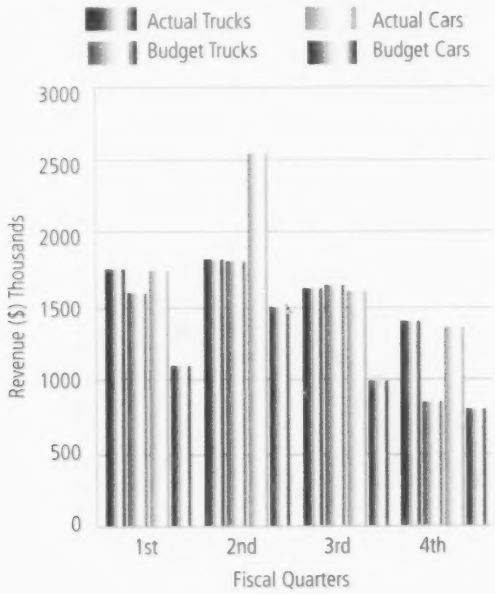
Cash Toll and ETC Revenue

April 1, 2002 to March 31, 2003 (Audited)



Revenue Versus Budget Projections

For the Fiscal Year Ending March 31, 2003 (Audited)



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